



Episode 9: Chilling Out: Planning for Retirees

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Keith: Welcome to episode nine of the Empowered Investor. My name is Keith Matthews and I'm joined by my co-host Marcelo Taboada. For today's episode, Marcelo, in the last two shows now, we've started to move into planning. And it was a bit of a mini-series. We're putting together three episodes on planning and each one is specific to an age category. So why did we put this little mini-series together?

Marcelo: I think as we were discussing financial security and all these issues to get to that goal, which is what we all want to achieve, I think it's primordial to know and be aware of the importance of the financial plan in all this picture. It's really important to know what the different stages are and what you should be doing in terms of the planning. And the impact it can have towards this final goal. That's why.

Keith: Yeah, that's great. That's great. We specifically set it up into three episodes. The first episode being for those aged 25 to 35. So your start of either careers or life, maybe even family. And then the second episode was on 35 right up to pre-retirees. And then today we'll talk about the retirees. Can you remind us what were our takeaways for the first one, the 25 to 35s?

Marcelo: Yes. So the takeaways here are get a grip of your budget. Know exactly where every dollar is going. Again, I mentioned in the episode that some people want to have a very detailed view, other people more a macro view of big picture, but either way, you gotta know where your money's going. And the second takeaway is you gotta set up a savings plan and commit and stick to it and be disciplined because this is a very important time where you take advantage of compounding and all these things we talked in the episode. So that would be it. Yeah. We call that one setting the foundation. Yeah. Now what about 35s to pre-retirees? What were the takeaways there, Keith?



Keith: We call that session the power play. We called it the power play because it was what we think is a critical time for individuals in their careers and everything that they're trying to juggle. So they're trying to juggle family, evolving careers, buying houses, developing different projects. There's a lot of moving parts in this age category. It's also the highest income earning years. So it's really the time to put the most amount of energy into understanding. Are you on track and moving forward? So we determined that two great takeaways for that age category were making sure that you understand your lifestyle spend and live within a certain zone because if you can't figure that out, then it's going to drag on forever. And then you're going to succumb to potentially lifestyle creep. And then finally from a savings perspective, really aiming as best as possible to hit that 15 to 20%. Savings rate on your gross income right? We're obviously very mindful of the fact that we are in a recession right now. And so for some listeners, times are more difficult. There's a lot more uncertainty. Some may have lost jobs. However, for a certain portion, what's interesting right now is saving rates are going up. There's less to spend money on. Absolutely. It's important to take advantage of that, but the takeaway was it's hectic, it's busy, and it's time to bring your power game. So Marcelo, those are the first two shows. Today's going to be the third show of this mini-series. We're going to focus on planning for retirees 60, 65 and beyond. Okay. So why is this such an important topic for retirees?

Marcelo: Oh, I think it's huge because if you have got the other two stages, this is like a transition zone where you go from your earning years and your power play years to where you start collecting the fruits of your labor, where you have your resources and you want to know how long they're going to last. And it's the time where you start using these resources. So it's extremely important in this stage to know exactly where you're going. Also, if you think about it as an analogy in terms of sports, this is the later innings of a baseball game. So if you want to get the most out of the resources you have, this is the stage where you should know where you're going, which is extremely important.

Keith: You're making it sound like we're at the end of a game and nobody wants to think of themselves as being at the end of the game. On that, I thought it would be very interesting to bring up the fact that we've looked into lots of research in terms of the happiness factor. They've studied all age categories in all different regions, by the way. So we're going to focus on Western countries. So North America and Europe. What did that study show for the happiness factor?



Marcelo: They found two really interesting things. In Western countries, the highest levels of happiness were people in their twenties and then from age 35 to 60, it was the lowest levels of happiness. So twenties, a lot of happiness, 35 to 60, not so much happiness. And then at the end of the age group, so 65 and up, it's in the highest top 80 percent of happiness. So people are the most happy at this stage of life.

Keith: Yeah. So technically the good news for retirees is that while it might be the sort of the last bunch of innings in a baseball game or a game, it is probably one of the happiest times that you can have between 60 and 80. And I think that's really important.

Marcelo: Yeah. And I think also if we're staying on the sports subject, this is where your team or yourself have a comfortable lead. And you can really enjoy the game. I think whoever plays sports or any type of competitive environment, if you have a comfortable lead, it's easier to enjoy and just have fun.

Keith: So well said. So let's move into the next sections, Marcelo.

Marcelo: So what are retirees focused on? We see a lot of people through our door, right?

Keith: So I would say maybe 40 percent of our clients are retirees. When I go back and I look at how I started my career 25 years ago, a lot of clients at that point were between the ages of 55 and 65. They were just starting their retirement. Most of them are still with us today, but now they're 85. So we've seen the entire evolution of individuals go from the beginning of retirements all the way through. And I would say that by far the number one objective for most retirees is pretty straightforward. It's to be active, healthy and happy. And that's pretty much at the early stages or the later stages of retirement. The other big issues are they want to be involved with kids and their grandkids. Yeah, they want to stay active in hobbies or interests and their passions. And if they often individuals put things aside and they may want to revisit when they have a bit more time. Financially, Marcelo, what do you see? What do you see them wanting?

Marcelo: They want to know if they will have enough. I think this is a very crucial question. You want to know if you can keep your lifestyle the same way that you had before when you had the income sources. I think again, like you



want to know if you're going to be able to lead the life that you just described, having being able to do a lot of hobbies, traveling, spending time with your kids, not only that in grandkids but quality time. And I think it's a universal truth that everybody wants to keep a certain level of dignity when they retire. And this is why money is so important. I think knowing that you have enough relieves a lot of stress when you're getting into this stage.

Keith: Yeah, absolutely. I think on the financial comfort side, there's definitely something that every retiree is going to want to ensure. And then back to the sort of the lifestyle objectives, people have various different lifestyles and they have different objectives. Some are large goals. Some are small goals. I remember a brand new client coming on board and she was a physician and her number one objective, Marcelo, you're not going to believe this, but her number one objective was to learn how to use a chainsaw. She was very passionate about it. She had bought in a farm. She had wooded areas and she wanted to really understand how to use chainsaws and how to get good at it. So you see all these different objectives and that's what this is. I love working with retirees because there's so much energy and passion around things they want to do. The sustainability part is where we come in because we want to really work with them to make sure that they have a sustainable financial future.

Marcelo: Yeah. And some of the things you see a lot is it varies in terms of what people want to do. For some people, it's really going up north and reading and enjoying nature. For other people, it could be as exotic as getting into woodworking, which is so exciting. But definitely these things add a lot of meaning in somebody's retirement. And the ability to do these things depends on how much money you saved in the past. And that's why it's so important knowing how much you can spend going forward. And the idea of sustainability is key in this stage.

Keith: Yeah. And one recommendation I would have for even pre-retirees is that don't wait until you're retired to start picking up your passions, interests, and hobbies. Oh no. You got to start doing it in your forties and fifties. Start finding these interests because if you have them, then you can develop and nurture them. And then you can really do a deep dive when you have more time with it. So, Marcelo, with that, we'll start moving into sort of some of the nuts and bolts of planning for retirees. And we'll move into what we call the gears. And we've mentioned this in the previous two sessions. We have six



gears. Do you want to just go over what the names are of the six gears and then we'll go through the flow?

Marcelo: Perfect. Yeah. So there's six. It goes like this. We have retirement planning. We have debt management. We have an investment plan. We have risk management. We have tax planning, and we have estate planning. Remember in the last two episodes, we went back and forth depending on the age group we were covering. So let's just do the same exercise here for what it looks like in this age category. So retirement planning, Keith, what do you think the focus should be here for a person in this age group?

Keith: Absolutely critical, imperative. And it's all about making sure you have a sustainable financial lifestyle. And that means a portfolio that can last from the day you retire till I would say 90 plus or minus, and it needs to be able to absorb bumps and unexpected expenses. So determining whether you have a sustainable portfolio, sustainable lifestyle is critical.

Marcelo: Absolutely. What about debt management?

Keith: I would say in the old days, 10-15 years ago, you would say most retirees should not have debt at all. And I think that's still a mantra that can be followed and looked at. However, we're fully cognizant of the fact that some retirees may have debt, specifically in high real estate markets. So Vancouver and Toronto, you might find a little bit more debt in retirees. Ultimately, you shouldn't have it. But...

Marcelo: Yeah

Keith: that's a big issue now across the country. What about investment planning? Critical. Obviously, your investment portfolio for many retirees, that's probably one of the number one assets they have, that in their home. We'll talk about how a home fits into retirement planning later, but from an investment management perspective, your portfolio has to last 25 to 30 years. So you can't just call it preservation of capital and say I need a portfolio to last five or 10 years. You need to make sure that there's growth in that portfolio. There's opportunities to grow without taking on any crazy or stupid risk. You need to make sure that the portfolio can last over time.

Marcelo: Yeah. I think underlying that too, going back to the pitfalls and the investment mistakes, and I think what I've seen from the retirees that we've



onboarded that didn't have an investment philosophy that's based on evidence and consistent, when they add this at this stage of their life, it reduces a lot of stress. Going into a retirement, say, this is the age where you want to simplify your life. You don't want to be involved in having to pick a few stocks to generate income or be stressed about having too much risk and not knowing what's happening in the portfolio.

Keith: Yeah, that's a great point, Marcelo. Absolutely. It brings a tremendous amount of confidence. Thanks for adding that in. All right. What about risk management?

Marcelo: So we talk about risk management. We're talking about insurance. Insurance is generally a need for those that might have dependents. So typically you don't see a lot of usage. They're critical to have your situation evaluated by an independent licensed insurance agent or a licensed financial planner. When you're looking at things like insurance, we downplay that on the retiree market. However, if you're an entrepreneur and you have business assets, or if you have low adjusted cost base property that might be secondary property, cottages in the Muskoka's, cottages that have huge value, there might be some needs for insurances. So talk to an insurance specialist.

Marcelo: Absolutely. Again, we probably should have an episode just on insurance, but absolutely. Tax planning.

Keith: Tax planning I think is pretty critical. Obviously, getting your tax returns done is a component of tax, but that's not necessarily tax planning. There are opportunities depending on cash flows. Whether cash flows are coming from RSP accounts, RIF accounts, open accounts. There are opportunities depending on a person's income level to increase your after-tax abilities. And so that's something that is critical. I would say critical between the ages of 65 and 75. There's some opportunities there and then there's some opportunities a little bit later, but that's something that you need to talk to a planner about.

Marcelo: Absolutely. What about the last one, estate planning?

Keith: Estate plan wills and mandates or powers of attorney. Again, an absolute must. We've said this in the last three mini-series sections, an absolute must for all age categories, regardless of what stage in life you're at. As soon as you start having assets, you need to have wills and planning put in place, but absolutely critical at this age stage. And I would go as far as saying,



probably needs to be reviewed every five years, maybe even brand new ones executed every 10 years. Again, talk to a notary, talk to a lawyer, talk to a financial advisor, make sure your wills are in place. Don't wait to the last moment. We do see on occasion, individuals say, I'm always going to be there. I'm always, don't wait to the last moment, put it in place. You never know.

Marcelo: Yeah. It's crazy. Sometimes we onboard clients who are later in the stage or just entering into retirement or later on in the stages. And some of them don't even have a will. Like I've been surprised a few times. So definitely something you should be looking at this stage. You're talking about sustainability. We've mentioned it at the beginning of the episode as being the most important thing. You just reiterated that. What does that mean? What's a sustainable withdrawal rate?

Keith: Okay. So now you've added the word withdrawal rate, which is perfect. So a sustainable withdrawal rate is a percentage in which you can take from your portfolio year in and year out. Not over two years, but over 25 to 30 years to allow you to lead your life comfortably, pay for all the expenses that are required from that amount of money, and ensure that you still have a reasonable chance of having something left at the end of the day. So you don't run out.

Marcelo: Absolutely.

Keith: So what you're saying, it's a model where you've aggregated all your assets and how much money you need to live. And based on that, you say, okay, I could take X amount from my assets and that's going to be sustainable, right?

Marcelo: Exactly. And the way you think about this is in a perfect world, you sit down as a 60-year-old, obviously you should be doing this way in advance, but I'm just saying you're sitting down at 60 and saying, how much do I need to live to enjoy my retirement? What is my burn rate? Is it 5,000 a month? Is it 8,000 a month? Is it more? Is it 10,000? Is it 15? What is the amount that you need on a monthly basis to enjoy your retirement? Okay. That's step one. Step two is you calculate what are your secure revenue streams coming in. Do you have a corporate pension plan? Yes or no. What are the amounts of your government pensions? So that's QPP and CPP plus OAS at 65. What are those amounts? Add up to very seldom in today's market. Are we seeing individuals that have enough pension to cover all of their lifestyle expenses? So most



people have a shortfall. So they're missing money. They need to get that money somehow to pay for the lifestyle that they wish to have. That money needs to come from savings. So what we're talking about here is that amount of money should not exceed a certain safe drawdown rate. This is where we're pointed towards this thing called the 4% rule. And that's a big guideline, a big rule that has been used really, I'd say, for about 20 years. We can talk about the pros and cons, but Marcelo, what is the 4% rule?

Marcelo: The 4% rule was researched and then coined the term by a financial advisor in the United States. Before the nineties, people used to use a 5% or even more withdrawal rate. And then he challenged that question. And he said, I'm going to look at the previous year's returns and see what the safest thing to withdrawal rate is for a retiree to have a sustainable lifestyle when he stops working and that income stops coming in. So he looked at the returns for a 50-year period. So from 1926 to 1976. Now he did this because those are the years that had overlap between the Great Depression and the crisis and the downturn, the bear market of the 1970s. And he found out that the lowest number a retiree could withdraw from their portfolio to have a sustainable 30-year period. Withdrawal in their portfolio was 4%. That's where the rule comes from.

Keith: It's a rule of thumb.

Marcelo: Okay. So what that 4% rule comes from then is looking at the worst possible period over that 50-year period, obviously times have maybe have changed. And that was, I think, on a balanced portfolio. And another part that was important about that is, so let's say you had a million dollars worth of savings. That means you could take out 40,000, so 4% of a million dollars. And I believe, Marcelo, that you're also allowed to gross that up by inflation each year over your 30-year period to allow you to have a sustainable retirement.

Marcelo: Yes, there's two ways that he did this. One was like, you either adjust the inflation rate by what the Fed or Bank of Canada target would be, so that's two or three percent, or you actually adjust it by the exact amount of inflation. But this is a bit complicated for retirees because you want to have a set amount every year, otherwise it becomes really complicated. One year is going to be one percent inflation, or the year is going to be three percent. Essentially, people say, just go with the target inflation and then adjust it every year.



Keith: There's things I like about this rule. And there's things that I don't like about this rule. The things I like about this rule is it's a rule that's somewhat easy to explain and it allows you to at least get into a framework of discussion. Now, with lower returns that we have right now, often you, 4% rule is now a thing. Three, three and a half percent rule. There's different variations of these rules, whether you do constant withdrawals or dynamic withdrawals based on market conditions suffice us to say, I think there's merit in at least understanding the basic principles. So what that I recall five, six, seven years ago, individuals coming into our office and saying, I'd like to retire. And we say, okay, how much money do you need? And they would say X. And we would say, how much money do you have? And we would say, let's take the amount of money that you need divided by the number of money that you have. And that's 10%. And right away at 10% withdrawal. Okay. Isn't gonna work. You're gonna spend your capital. And if you start at 65, you might be outta capital in your mid to late seventies. And then that doesn't even take into consideration if you have a bear market at the beginning. Obviously, we never know how life will evolve, what returns will come during your years of retirement. But I do recall that same study using the safe drawdown rules had 4%. I believe if you were retiring in 1966, and if you were retiring in 1981 at the beginning of what is the 20 greatest bull market years we've seen in the last 50 years, your drawdown could have gone as high as 8%. But you can't bank on that.

Marcelo: No, definitely not.

Keith: Okay. So when we're talking about withdrawal rates, sustainability, we know it's a rule of thumb, but there are fantastic softwares out there to kind of plan for this. Getting to the bottom of this when you're looking at a portfolio. So we have to stress test the model, right? How much money people have in the portfolio, their pensions, and then what their expected expenses will be in retirement. So let's get into that.

Keith: Yeah. What you're talking about is, it's nice to have rule of thumbs, but in the end they're just rule of thumbs. What retirees, what pre-retirees really need to do is model to the best of their abilities their retirement year. So the model has, so this is what's nice about some of the software packages that are available in the market right now is you can load up your expenses and you can even stage expenses. So you can go as far as saying I've higher expenses in my go years. We refer to that. I know that came through with another financial advisor. I don't know, maybe 10 years ago, but it stuck with me. And he had referred to the go years is 60, 65 to 75. We're full of energy. Able to do



everything, tackle the world, have fun, travel, be active. And those are the most expensive years. So you can model in most expensive years from a cashflow perspective, you can model in lump sum expenses, weddings, maybe gifts to kids and grandkids. You can model in large home expenses and you can even model in health expenses, which we'll talk about in a bit higher health expenses later. So you model in all your expenses, you model in your revenues, and then what?

Marcelo: You get a probability of you reaching the goal. So it'll tell you, for example, if you model everything and you're spending an X amount during your go years and an X amount in the years after, you can even project that changing asset allocation. You're going from a 60-40 to a 50-50 when you're later on in life. So the program will stress test this model and tell you, okay, you have a 70 percent chance of having enough money till age 90 or 95, depending on what age you decide. Now, this is just a guideline, right?

Keith: Yeah, but you're jumping ahead and you're already moving into the Monte Carlo concepts here. The projections usually will take a straight line approach, a lot of projection systems. What you're suggesting is doing a couple steps more, which is getting into things like Monte Carlo. And we do things like sequence returns, which is what happens when you retire and you fall right into a bear market. And your first 10 years, you can't get that 4% return in your balanced portfolio or three and a half percent because you're in this really poor period of returns. What does that do for your retirement? It has an impact. I think what the message you're bringing is not only do you do a model with regards to where your cash flows are, your assets, your financial assets, your rate to return, but you should also stress test either through Monte Carlo or sequence of returns in order to show a retiree what they might be living with. What are the various different circumstances?

Marcelo: And you're absolutely right. There's two ways of measuring it. I jumped the gun a bit here, but I have a great analogy that we use with clients when it comes to describing this two different models. So let's say you have Island A and Island B, you need to build a bridge from Island A to Island B. And you know how many materials you have, how many hours a week you're going to work, and your level of say energy for you building this bridge. In a perfect world, the linear model would represent you building this bridge with the resources you have with no current random elements. So no current in the water, no storms, no hurricanes, no wind, all this type of things. And then you'll know, for example, okay, I'm going to make it in eight to 10 days or eight



days, nine days, whatever the answer may be. Now the Monte Carlo, what it does is elevates this level of analysis and says how much resources you have to build this bridge. Now let's include all the randomness. Let's include the currents, the hurricanes, the wind, the days that you're sick, that you work five hours instead of eight, the days that you feel amazing and you work 15 hours instead of eight. So now you're introducing a bit more randomness into the equation. And this will give you a probability number of you building this bridge. Say if your goal is to build it in 10 days, the Monte Carlo will tell you, okay, based on this model of in how many resources you have an 80 percent probability of finishing in 10 days.

Keith: So this what you're saying is then if for whatever reason, instead of saying nine days being the linear answer, you might end up with you could finish it in six days or you could finish it in 13 days. It all depends on what comes your way. That is an absolutely brilliant example. When you first told it to him, I thought it was great. It just makes so much sense when you tell that to clients. How do they respond to that? Do they get when you say, cause I've heard a lot of people try to describe what a Monte Carlo analysis is. And it's hard to grasp sometimes when you give a technical, but when you give that kind of live exam, how do they respond to that?

Marcelo: Honestly, like I'm probably going to get flack for this, but I think it's a horrible name for a financial planning term because a lot of people think of Monte Carlo as a gambling site. So that's the first, like it gets a chuckle out of clients. And the second one is I used to use the bell curve and all the technical terms to describe it and it's people would just look at me with this face. And then I thought to myself, there must be a better way of explaining this. So I came up with the analogy because it's something that everybody can relate to and it's easy to understand.

Keith: I think it's great. I think it's fantastic. You should write up a little piece on that one. All right, so let's move on now. We've talked about the nitty gritty of sustainability and why it's important to stress test it. What about some challenges when talking about this retirement age?

Keith: So the biggest challenge that I think all retirees face is this idea of unexpected expenses. And it pops up all the time. If you model and say I need 80,000 a year, 60,000, whatever the number, a hundred, whatever the number is. We often see individuals come and say, ah, geez, this happened to the house. I need an extra 20 here. There's just things that go on. I need to help my



kids. And all of a sudden there's a withdrawal of 10,000 or 20,000 or more. And so I think the number one issue, and this is typically within the control of retirees. When I say control, they can think about this. The more they think about these unexpected, the more they should put them into their plans. These are the big ones, just the massive unexpected expenses. What have you seen, Marcelo? What examples have you seen on unexpected expenses?

Marcelo: I've seen a few. I think I came across a really interesting one a few years ago. We had a client who's already retired and he had a problem in his foundation and that was going to cost a big amount of money to fix. It wasn't just a little crack. Then the other ones we've seen is the more emotional ones. Retirees trying to help their kids get a down payment for a house. Everybody knows what's going on with the housing market and how expensive it is for my generation and also weddings. Or my kid lost their job and I'm going to give them 40,000 if they can get through. So these are a bit tougher and complicated because they're emotional ones. Rational, you may know that you can't afford to give them the money, they're there and they're unexpected.

Keith: Yeah, absolutely. And we're always telling people we're all family members. We all have families. We all know how important families are and you want to be there to help, but you need to make sure if you're retiree that you don't overextend your help because then you're putting yourself in a bind potentially.

Marcelo: Yes. The other one, Keith, is healthcare. You know how expensive that is after 80 if you've got to go to a place, a private place or a place with 24 seven care. This can be very expensive.

Keith: Yeah. And of course, we're obviously with the pandemic that we're living through, we're seeing horrible events occurring throughout Canada in older age homes. I think this is a bit of a wild card in terms of how that's going to play out, what new regulations are going to come into play. I've already had two clients tell me as part of their objectives now that they will never move out of their house. I've been doing this for 25 years. That was never an objective. So in the matter of a month, I've now got two clients saying in their meetings, I will never move into one of those homes. It's an easier statement to say when people do hit older ages and there are health issues, often there aren't a lot of choices, but it is interesting. It is interesting to see how these developments will go on in the next little bit. In terms of the length of time,



people are wanting to stay in their homes and what kind of expenses they can't afford and what kind of expenses they wish to pursue.

Marcelo: Yeah, I couldn't agree more.

Keith: So those are unexpected things with regards to maybe spending patterns. What other unexpected things can get in the way of a sustainable retirement?

Marcelo: We were talking before about Monte Carlos and all these things and returns, lower expected returns can be a huge problem for retirees. Bonds are not what they used to be. Back in the eighties anymore. Then if you're retiring in a bear market or a huge downturn, these things are unexpected, right? So this could have a big impact in somebody's retirement.

Keith: Tell me about it. Again, going back to my earlier days as a bond trader. So institutional bond trader and sales, talking to pension funds across the country and moving large blocks of bonds into their retirement. Major accounts. And back then you could get nine. And I remember even 10% in the early nineties, 92, 93, 94. And that was in a time when you had inflation at maybe two or 3%. So you had 700 basis points of real return. I'm looking at my screen right now. I see the U.S. treasury paying 66 basis points, 10-year U.S. treasury. Wow. So if inflation, now we might be in a small deflationary blip right now with the pandemic, but let's say inflation still hovers in between one and 2%. You have negative real returns before taxes. And that's unheard of. So for a retiree now to assume they can get a rate of return, it's a great time to be a borrower. If you have the financial capacity to borrow, hence why property values are up so much in the last decade or two, but it is a horrible time to be a bond investor and to get any kind of real return. And this is going to affect retirees. So you're right. Low returns, but this has to be modeled into the projections, right?

Marcelo: Absolutely. You gotta be ultra conservative here and go for a lower number just to get a more accurate. I think there would be nothing worse than to overshoot this expected return and then end up in disappointment.

Keith: So I think what you'll end up doing now is you'll end up seeing people using, I would say a few years ago, people were trying to get away with 5, 6 percent for a balanced portfolio. Until this point, I've always been using 4 percent for a 60-40 portfolio. After fees, we're probably going to have to



ratchet that down to three and a quarter, three and a half maximum. And this has implications in terms of sustainable portfolios. It just means people will have to save more in preparation of that day where they stop working.

Marcelo: And let's be very clear here. This is expected returns. It's not like we're making a prediction, right?

Keith: Correct. Absolutely. Marcelo, we would never make a prediction.

Marcelo: Good. I just wanted to make sure we make that clear.

Keith: So listen, we're not wrapping up yet. We've still got one last section to do here. This is a little bit of a longer episode than normal, but there's just so much in it and it's so important.

Announcer: Yes.

Keith: Let's tackle the last issue we've got on the plate for today's agenda, which is houses. How do homes fit into retirement plans? We've all heard people say things like, my home is my number one retirement asset. That's where I'm putting all my money. Is that a safe thing to do? Is that a practical thing to do? Not save and put everything in a home?

Marcelo: No, absolutely not. Don likes to say, Don is the other partner of the company. He likes to say that you can't eat a garage door. I think that's really funny because you may have a lot of equity in your house, but you can't eat it, right? You're going to have to do something about it eventually.

Keith: Yeah. What you're referring to is, let's say 65, you don't have investments. You have your Canada pension plan, but you need more than Canada pension plan. And you say you've got your house. You need more cashflow to sustain yourself, to live, to do all the things you want to do. And you can't actually access the equity unless you start doing reverse mortgages, which is not something that you typically do at 65 years of age. You do that later in life. So absolutely couldn't agree with you more, Marcelo. And we always tell individuals, you need to build up enough of a sustainable nest egg to carry you through your retirement years. Your home is possibly the last standing asset. Your home might be used as that asset. Should you need extra medical care? And should you need to move into a retirement home, your home might be considered the asset that's used as an asset to beneficiaries or a buffer in your plan. Ideally, we do know obviously that many Canadians need



to sell homes prior to that, but the goal should be not to have to sell your home.

Marcelo: Yeah. And I've seen it with clients. When you start doing the projections in the software we were mentioning, you show them that they don't need to sell their house in order to have a sustainable retirement. As opposed to the ones that may have to sell it at 70, 75, and maybe that's okay. They want to sell it. That's the question here, but it's a big difference to know that you don't have to do something as opposed to knowing that you have to do something just to have a sustainable retirement. So the stress level in those two opposing hypothetical scenarios, or actually not hypothetical, I've seen this in the general sense with clients that the stress level will be less in the ones that know that they don't have to sell these assets.

Keith: Yep. Absolutely. Absolutely. Let's go through different stages of retirement living now. In terms of living in home, renting, that whole transition. So we often hear individuals say they're going to downsize.

Marcelo: Yes.

Keith: Give us a quick idea of what that understanding is. What is downsizing? How does it ideally work?

Marcelo: Yeah. It means, for example, you sell your home and you go to a smaller house that is easier to maintain, easier to manage, less maintenance. It could be in the same town. It can be in a different city, but essentially the point is to simplify your life.

Keith: Yeah, that's for sure. One of the critical points. A second point that you often hear individuals think about is when I downsize, I'll take equity out of my house and I'll take equity in my house, which will be used to help fund my retirement. So I'll sell a million dollar property and I'll buy a 500,000 property. And I'm going to take 500,000 out and use that for my retirement.

Keith: Correct. One of the biggest challenges in that concept is it's not easy to do that. And yes, it is. If you leave an urban city and move farther away, like a lot farther away. But when you actually ask people, are you willing to do that? They're saying the opposite. I'd actually like to move maybe closer to the city. And that's where downsizing actually gets tricky because the prices tend to be going up as you get closer to the city. So the idea of downsizing from a financial



perspective is not obvious when you sell, try to rip equity out of your property, harder to do unless you move into a lower price regions. But most definitely the idea of downsizing to make life easier, to have smaller expenses, to have a more manageable property, to have less landscape to worry about, to have less interior space to worry about, I think is a great idea.

Marcelo: All about landscaping headaches, right?

Keith: Oh my God. I'm on a two-month project now, Marcelo, but I've got my kids working in it. In sort of this idea of pandemic and stay local and be careful. We're spending a lot of family time planting hedges. But yeah, so the downsizing is a classic concept. But a bit trickier to execute. Yeah. You need to be mindful that you might not get as much equity as you think out of your house. There's also transaction costs. Interestingly enough, I am seeing a younger generation think about downsizing individuals in their fifties to maybe even early sixties. And they're not downsizing from a financial perspective. They're downsizing just to make life easier. They're tired of maintaining. They're just tired. They want to do more things.

Marcelo: Absolutely.

Keith: So what age do we see our clients typically holding on to their properties till?

Marcelo: I think 70, 75 to 80 is a ballpark what we see. Obviously there's cases that are outside of those age groups, but generally speaking, I think those are the ages where people say enough is enough. And they either think about renting or moving into a residence.

Keith: Yeah, for sure. I think the 75 to 80, they're most likely going into a rental and we've had lots of clients do that. And again, it's just because they just don't want the headache of ownership. Yep. I think the typical longer-term residences are 80 plus, 80 plus, 85 plus. I actually think that model is going to be challenged a little bit given what we've seen with the pandemic. I do think we're going to see more people try to live in their homes longer.

Marcelo: I agree.

Keith: I think this is going to be a new trend that we're going to see. As long as they're in good health, I think they're going to try to do it. So that kind of wraps up the different stages from a home perspective. And so we've gone through



the downsizing when people own properties till renting, senior residents I guess would be the last part. Any final comment that you might have there, Marcelo?

Marcelo: No, I think you pretty much covered it all. The one thing I will say though is that when you're downsizing, a lot of what I see with our clients and some of the clients that we deal with is it really takes off a headache sometimes. The fact that you're going from a house where you have to take care of the landscaping and all the maintenance to a turnkey situation where it's somebody else's headache and you just pay a rent. That could free up a lot of time and peace of mind when you're in your best years of retirement.

Keith: Absolutely. My dad sold his place. He had a 40,000 square foot property. And think about it now. I used to cut that grass with a push lawnmower. Oh my God. When I was 14 years old, it took me three and a half hours, Marcelo. Oh boy. How long does it take you to cut your grass?

Marcelo: About 20 minutes.

Keith: 20 minutes, an hour is what you typically would think. It took me three and a half hours. Anyway, you could see why he was 73. My mom passed away earlier, unfortunately, and he just didn't want to maintain a large property. And so at 75, he sold the house, 40,000 square feet of property to cut, moved into a rental apartment. Loved it. Spent three months a year traveling, every country you could imagine, New Zealand, Australia, South America, everywhere. Just loved it. Love the idea of not having a responsibility.

Marcelo: It's just ingrained in some cultures, right? The idea of owning like some cultures, the Italians and the Greeks, for example, I married a half Italian, like when you tell them you're going to pay rent, it's, Oh my God, you're giving your money to somebody else and you're paying somebody else's mortgage. It's, it's this taboo, right? So those things are tough for people to get over.

Keith: So listen, let's wrap up here. This is probably our longest episode that we've ever done. Great episode in terms of content. So much to deal with here. But what does planning bring retirees? Let's start wrapping up here.

Marcelo: Yeah, it brings control, direction. It's knowing where you're going, knowing that you're going to be able to afford retirement and have the life you always wanted, which is what you worked for. So I think it's an empowering



process. It brings peace of mind. And again, we go back to your concept of a double positive. It's better results and more peace of mind.

Keith: Okay. Absolutely. Fantastic. What are the consequences of not doing sustainable forecast planning all the way through retirement? What are the issues? What happens?

Marcelo: It's simple. You can run out of money, which is an absolute disaster at this stage of life, then reduce quality of life. I think we can agree that everybody wants to keep a certain level of dignity, especially at this age. Needing to rely on family. Nobody wants to be a burden to anybody. Then the stress of not knowing if you're on track, of not knowing if you'll have enough. I cannot think what that could do to a person. So that's a big risk. And then you could end up taking excessive risks, putting all your money in risky stocks because you don't have enough money. And you can end up losing a lot more and then ending up in a worse place than you were.

Keith: So listen, let's wrap up with a few takeaways here. What are your takeaways for the retirement section from a planning perspective?

Marcelo: We've said a lot in this episode, but I think the biggest takeaway is know where you're going and that's going to add peace of mind. I think just get that projection going, know what your sustainable withdrawal rate is, and then enjoy life. That's it for me.

Keith: Yep. And in fact, we're calling this section chilling out. And so my biggest takeaway, and I've told this to a lot of our existing clients who have done an incredible job saving money for their retirement. Do everything you want to do. Now's the time to start going through lists of activities you wish to do that you've always thought you wanted to do. Get it done. If you want to hit some travel spots, take care of it and you got to make sure you start doing all these things so that you're active all the way through retirement.

Marcelo: I think we can agree that we've done and exceeded our job expectations. If we can tell somebody go spend some money, right?

Keith: Yes. Technically, yeah, it's always fun to do that, but they have put themselves in an awesome position. Yes. Yes. It's so nice to see that when it does occur. Absolutely. So thank you everybody for tuning in to episode nine of



the Empowered Investor. Be well, stay healthy, and we'll see you in two weeks for our next episode. Goodbye everybody.

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